

Message Text

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C O N F I D E N T I A L LIMA 1728

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TAGS: MASS, PE

SUBJECT: FY 1977 MILITARY SECURITY ASSISTANCE

REF: STATE 36160, LIMA 1628

1. AS REQUESTED STATE REFTEL, FOLLOWING ARE MAY ASSESSMENTS OF U.S. MILITARY SECURITY ASSISTANCE PLANNED FOR PERU FOR FY 1977, AND OF THE IMPACT OF OTHER ECONOMIC ASSISTANCE PROGRAMS HERE. THE U.S. PROVIDES MILITARY ASSISTANCE TO PERU (COMPRISING \$23.5 MILLION IN FMS CREDITS AND \$.9 MILLION IN GRANT TRAINING AS WELL AS FMS CASH SALES) ALMOST ENTIRELY FOR POLITICAL REASONS. PERU IS GOVERNED, AS IT HAS BEEN FOR SEVEN YEARS, DIRECTLY BY ITS ARMED FORCES. THUS, TO DEAL WITH THE GOP IS TO DEAL WITH THE PERUVIAN MILITARY. THERE IS NO PRESENTLY DISCERNIBLE ALTERNATIVE TO CONTINUANCE IN OFFICE OF MILGOV.

2. U.S. MILITARY SECURITY ASSISTANCE TO PERU HELPS KEEP OUR LINES OPEN TO THE GOP. IT DEMONSTRATES OUR WILLINGNESS TO COOPERATE IN WHAT THESE MILITARY OFFICERS SEE AS THIER PRIMARY VOCATION: TO DEFEND THEIR COUNTRY. U.S. ASSISTANCE ALSO HELPS TO LIMIT THIRD COUNTRIES' INFLUENCE, THROUGH THEIR OWN MILITARY SALES AND ASSISTANCE TO PERU. THESE THIRD COUNTRIES ARE, OF COURSE, OUR COMMERCIAL OR IDEOLOGICAL COMPETITORS, OR BOTH.

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IN ADDITION TO WEST EUROPEAN COUNTRIES, WHO ARE U.S. COMMERCIAL

COMPETITORS, THIRD COUNTRIES ACTIVE HERE ARE THE SOVIET UNION, THE EAST EUROPEANS AND CUBA.

3. IT IS DIFFICULT TO GUAGE THE EFFECTIVENESS OF U.S. MILITARY SECURITY ASSISTANCE TO PERU SINCE WE ARE DEALING WITH INTANGIBLES AND "MIGHT-HAVE-BEENS". HOWEVER, WE KNOW THERE IS A RESERVOIR OF GOOD WILL TOWARDS THE U.S. AMONG THE PERUVIAN MILITARY. MANY PERUVIAN MILITARY OFFICERS WERE TRAINED IN THE U.S. UNDER MILITARY SECURITY ASSISTANCE PROGRAMS IN PAST YEARS AND A NUMBER LOOK BACK ON THIS TRAINING EXPERIENCE AS THE MOST PLEASANT AND REWARDING OF THEIR CAREERS. WE ALSO KNOW THAT WHILE, AS A GENERAL PROPOSITION THE PERUVIAN MILITARY WOULD PREFER TO HAVE U.S.- MANUFACTURED EQUIPMENT, THE GOP WILL ACQUIRE THE MILITARY MATERIEL FOR WHICH IT PERCEIVES A NEED FROM WHAT IT DEEMS TO BE THE BEST AVAILABLE SOURCE. THE GOP ACQUIRED FRENCH AIRCRAFT AND SOVIET TANKS AND HELICOPTERS WHEN U.S. EQUIPMENT WAS NOT AVAILABLE. PERU IS LIKELY TO CONTINUE THIS POLICY AND THEREFORE WE CAN CONCLUDE THAT THERE PROBABLY IS AN INVERSE RELATIONSHIP BETWEEN U.S. WILLINGNESS TO COOPERATE MILITARILY WITH PERU AND THE AMOUNT OF THIRD COUNTRY MILITARY EQUIPMENT AND INFLUENCE IN THIS COUNTRY. MORE POSITIVELY, THERE IS PROBABLY SOME DIRECT RELATIONSHIP BETWEEN U.S. FMS CREDITS/TRAINING AND U.S. COMMERCIAL WEAPONS SALES TO PERU.

4. THERE IS ALSO AN INTERRELATIONSHIP BETWEEN THE FMS AND GRANT AID TRAINING IN THAT PERUVIAN MILITARY TRAINED WITH U.S. EQUIPMENT THINK FIRST OF THAT EQUIPMENT WHEN PLANNING MILITARY PROCUREMENT. ALSO, PERUVIAN ACQUISITION OF U.S. EQUIPMENT BRINGS A TRAINING REQUIREMENT WITH IT.

5. OTHER U.S. PROPOSED ECONOMIC ASSISTANCE TO PERU FOR FISCAL YEAR 1976 INCLUDES APPROXIMATELY \$23 MILLION IN AID LOANS AND GRANTS AND A \$25 MILLION AID HOUSING GUARANTEE. THIS LEVEL OF U.S. AID, WHEN SET AGAINST PERU'S ECONOMIC AND DEVELOPMENT NEEDS, DOES NOT HAVE A LARGE IMPACT. HOWEVER, THERE IS SOME IMPACT, ECONOMICALLY, SOCIALLY AND POLITICALLY. WE CAN CERTAINLY CONCLUDE THAT THE ABSENCE OF THIS ECONOMIC ASSISTANCE WOULD HAVE A NEGATIVE POLITICAL IMPACT, SINCE THE ABSENCE OF THE U.S. WOULD CERTAINLY BE NOTICED. ABSENCE OF U.S. ASSISTANCE WOULD ALSO

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HAVE A LIMITED ECONOMIC IMPACT ON PERU GIVEN THIS COUNTRY'S ECONOMIC PROBLEMS. PUT MORE POSITIVELY, U.S. ECONOMIC ASSISTANCE ALSO PROVIDES ACCESS TO THE GOP AND CONCRETE EVIDENCE THAT THE U.S. DOES SUPPORT THE OVERALL OBJECTIVES OF THE PERUVIAN REVOLUTION. THE \$76.5 MILLION FROM THE IBRD DURING THE CURRENT FISCAL YEAR, ALONG WITH \$85.8 MILLION FROM THE IADB, A SMALL UNDP PROGRAM, AND MODEST BILATERAL ASSISTANCE FROM THE WEST AND EAST EUROPEANS, SOVIET UNION, CUBA AND SOME OTHERS ALSO MAKE SOME POSITIVE

IMPACT ON PERU'S ECONOMIC AND SOCIAL BACKWARDNESS. AT THE SAME TIME, HOWEVER, UNWISE PRUVIAN INVESTMENT DECISIONS, LOWER COPPER PRICES, THE ILL-CONSIDERED AND ILL-TIMED NATIONALIZATION OF THE MARCONA (IRON) MINING COMPANY, SHARPLY REDUCED CATCHES OF ANCHOVETA FOR FISHMEAL, AND PERU'S INABILITY TO ABSORB SOME PROFFERED ASSISTANCE HAVE ALL COMBINED TO PUT PERU IN SERIOUS SHORT TO MEDIUM-TERM ECONOMIC DIFFICULTIES. FOR FISCAL YEAR 1977, THE NEW GOP ADMINISTRATION OF GENERAL MORALES BERMUDEZ WILL DO WELL TO KEEP ITS ECONOMIC (AND PERHAPS POLITICAL) HEAD ABOVE WATER.

6. LOOKING AHEAD, HOWEVER, PERU REMAINS A POTENTIALLY RICH COUNTRY BASED UPON ITS MINERAL RESOURCES AND DIVERSIFIED ECONOMIC BASE. IF THE NEW REGIME CAN STAY IN POWER, OR, IF AS MR. MICAWBER WOULD HAVE HOPED, " SOMETHING TURNS UP" IN COPPER, IRON, FISH OR PETROLEUM; IF PERU CAN BEGIN CLOSING THE GAP IN THE RACE BETWEEN POPULATION GROWTH AND FOOD SUPPLY; AND IF ECONOMIC ASSISTANCE CAN LESSEN PERU'S CURRENT ECONOMIC DIFFICULTIES; THEN PERHAPS THIS COUNTRY CAN REVERSE ITS PRESENT ECONOMIC DECLINE, BEGIN TO DEVELOP RATIONALLY, AND APPROACH ITS POTENTIAL.

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